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DIRECT TESTIMONY

OF

SHEENA KIGHT

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

UTILITIES INC.
WESTLAKE UTILITIES, INC
WESTLAKE UTILITY SERVICE COMPANY

DOCKET NO. 01-0050

MARCH 2001

1 **Q. Please state your name and business address.**

2 A. My name is Sheena Kight. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Illinois Commerce Commission as a Financial Analyst in the
6 Finance Department of the Financial Analysis Division.

7 **Q. Please describe your qualifications and background.**

8 A. In May of 1998, I received a Bachelor of Business degree in Finance and Marketing
9 from Western Illinois University in Macomb, Illinois. I am currently pursuing a Master of
10 Business Administration degree, with a concentration in Finance, also at Western
11 Illinois University. I have been employed by the Illinois Commerce Commission in my
12 present position since January of 2001.

13 **Q. Please state the purpose of your testimony in this proceeding.**

14 A. The purpose of my testimony is to present my evaluation of Utilities, Inc. ("UI"),
15 Westlake Utilities, Inc. ("WUI"), and Westlake Utility Service Company's ("WUSC")
16 Joint Petition for approval of the reorganization of WUSC into WUI, through UI's
17 proposed acquisition of WUSC pursuant to Section 7-204(b)(4) of the Illinois Public

Utilities Act (220 ILCS 5/1-101 *et seq.*, "Act"). My evaluation will focus on the financial implications of the proposed merger on UI's and WUI's (collectively the "Companies") ability to access the capital markets on reasonable terms.

Q. Why is it necessary to evaluate the financial implications of the proposed reorganization?

A. In order to approve a proposed reorganization, Section 7-204(b)(4) of the Act requires the Commission to find, in part, that "the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure."

Q. Please describe the corporate relationship between WUI and UI.

A. WUI is and will continue to be a wholly owned subsidiary of UI. Upon completion of the proposed transaction, the public utility property and assets of WUSC will be merged into WUI, which will continue serving WUSC's customers in a substantially unchanged manner.¹

Q. Do you have any concerns regarding UI's financial strength as it pertains to WUI's ability to raise capital on reasonable terms?

A. No. As the indirect owner of the capital stock and the conduit through which WUI will access capital markets, UI must maintain a level of financial strength sufficient to

¹ Joint Petition, p. 2.

raise capital on reasonable terms. Based on my evaluation, I consider UI's current financial position sufficient for this purpose.

Q. How did you evaluate UI's financial position?

A. I examined the Joint Petition and all supporting documentation that was filed by the Companies'. Subsequently, I prepared a data request to obtain additional information. In the responses to those questions, UI provided current financial statements, from which I computed four ratios for 1999 and 2000: pre-tax interest coverage, funds from operations ("FFO") interest coverage, total debt to total capital, and funds from operations to total debt ratios. UI's score for each ratio is within or above the benchmark ranges set by Standard & Poor's ("S&P") ratings agency for a credit rating of BBB.^{2, 3, 4} The tables below indicate that UI's ratios are consistent with a Standard & Poor's rating of at least A/BBB.

2000				
Ratio	S&P A-Rating Benchmark	S&P BBB-Rating Benchmark	Mean for A-Rated Water Utilities ⁵	Utilities, Inc.
Pre-tax Interest Coverage	2.8 - 3.4 x	1.8-2.8 x	2.81 x	3.30 x
FFO Interest Coverage	3.1 - 3.9 x	2.1 - 3.1 x	3.43 x	3.30 x
Total Debt to Total Capital	47.5 - 53%	53 - 61%	55.80%	52.57%
FFO to Total Debt	20 - 26%	14 - 20%	15.94%	20.64%

² Companies' response to Staff data requests SK 1.01-1.03.

³ Standard & Poor's, *Utilities and Perspectives*, June 16, 1999, p. 3.

⁴ A rating of BBB or better is considered investment grade.

⁵ Standard and Poor's, *Financial Medians Water Utilities*, July 7, 2001

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1999				
Ratio	S&P A-Rating Benchmark	S&P BBB-Rating Benchmark	Mean for A-Rated Water Utilities	Utilities, Inc.
Pre-tax Interest Coverage	2.8 - 3.4 x	1.8-2.8 x	2.81 x	3.43x
FFO Interest Coverage	3.1 - 3.9 x	2.1 - 3.1 x	3.43 x	3.86 x
Total Debt to Total Capital	47.5 – 53%	53 - 61%	55.80%	47.05%
FFO to Total Debt	20 – 26%	14 - 20%	15.94%	27.94%

49 **Q. Please summarize your findings.**

50 A. In my judgment, the proposed transaction will not significantly impair the Companies'
51 ability to raise necessary capital on reasonable terms or to maintain a reasonable
52 capital structure.

53 **Q. Does the proposed merger between UI and WUSC meet the requirements of**
54 **Section 7-204(b)(4) of the Act?**

55 A. According to my analysis, the proposed transaction meets the requirements of
56 Section 7-204(b)(4) of the Act. Therefore, I see no reason the Commission should
57 reject the proposed transaction from a financial perspective.

58 Q. Does this conclude your direct testimony?

59 A. Yes, it does.